

Growth and income inequality in Zambia



In brief

- The study analysed the growth-inequality interactions in Zambia between 1996 and 2015 using the Living Conditions Monitoring Survey (LCMS).
- Results indicate that income inequality in Zambia as measured by the per capita income based Gini-coefficient increased sharply from 0.70 in 1996 to 0.75 in 2004, before declining slightly to 0.74 in 2015.
- Self-employment is the most common source of income reported by households. However, wage income, which is reported by only 27% of households, constitutes 51% of total household income.
- Wage income is the largest contributor to income inequality in Zambia, followed by non-agricultural self-employment.
- Zambia's poorest households have experienced the highest proportional growth in incomes in the past 20 years, although from a very low base. While poor households have been catching up with middle income households, the gap between middle and high income households has increased.
- Increased income inequality slowed the reduction in poverty derived from economic growth.
- To address income inequality and poverty levels, Zambian policymakers should focus on creating broader access to wage employment, addressing inequality among wage earners, promoting agricultural productivity and better integrating policies aimed at reducing poverty and inequality.
- This brief is based on the paper Understanding Growth-Income Inequality Interactions in Zambia, by Borat, H., Kachingwe, N., Oosthuizen, M., & Yu, D., (2017).

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1. The relationship between growth and inequality

Achieving rapid economic growth on a sustainable basis is a key policy objective for governments around the world. However, different patterns of economic growth will have different labour market outcomes in terms of employment and wages: growth paths that favour capital intensive modes of production, for example, are more likely to favour workers with skills and are less able to generate large numbers of unskilled jobs. As a result, patterns of economic growth are closely linked to poverty and inequality outcomes.

These links, however, are complex and there is no firm agreement among academics on the relationship between economic growth and inequality. Overall, it appears to be widely accepted that economic growth has a largely ambiguous effect on income inequality, although the pattern of growth may still influence the way in which gains from growth are shared by society. There is also considerable evidence that inequalities in income and physical and human capital have a significant negative impact on both the rate and the duration of economic growth.

Zambia's economy has grown rapidly over the past two decades, with GDP expanding at an average rate of 5.9% annually between 1996 and 2015. During this 20-year period, the structure of the economy also shifted away from agriculture and manufacturing towards mining, construction and services in general. Employment grew by an average 1.7% annually between 1996 and 2015. Despite this, the outcomes in terms of inequality seem to have been less favourable.

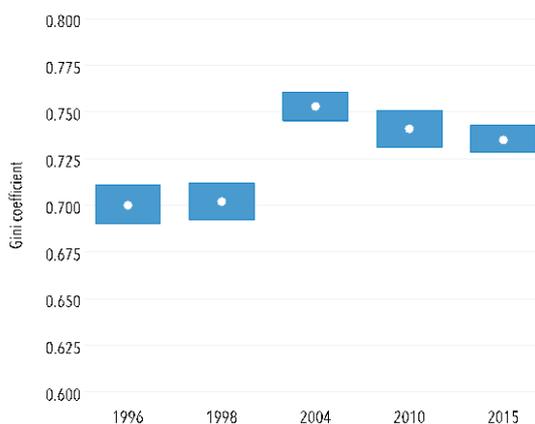
2. Understanding inequality in Zambia

The aim of the research was to analyse the particular growth inequality interactions in Zambia over the 20-year period between 1996 and 2015. Household-level income data reported in the Living Conditions Monitoring Survey (LCMS) was used to derive income-based Gini coefficients. Key results of the research are highlighted below:

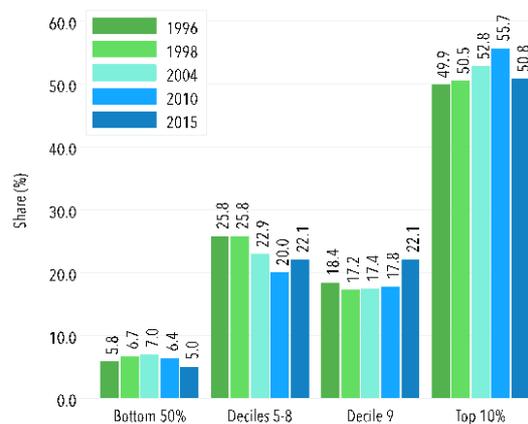
Income inequality in Zambia is significantly higher in 2015 than in 1996

The research estimates that Zambia's Gini coefficient, a measure of inequality in terms of per capita income, increased from 0.700 in 1996 to 0.753 in 2004, before falling slightly to 0.741 in 2010 and 0.735 in 2015. Thus, for much of this period the trend was towards increased inequality.

Gini coefficients, 1996-2015



Income Shares across the Distribution, 1996-2015



The inequality measure reflects the shifts in the income shares across the income distribution. The income share of the top 10% increased steadily in the period 1996-2010 from 50% to 55% but dropped substantially in 2015 to 51%. The income share of the bottom 50% in 2015 declined relative to 1996, as did the share of the middle income group (decile 6-8). In contrast, the income share of decile 9 increased significantly in the past five years. This shift seemed to coincide with an increase in the share of income derived from non-agricultural self-employment.

Self-employment is the most common source of income but wages contribute 51% of total income

The LCMS records households' sources of income. Self-employment is the most common source reported in 2015, with 46% of households reporting agricultural self-employment income, and 48.4% reporting non-agricultural self-employment income. In contrast, only 27.4% of households report earning wage income. Despite this, wage income is the largest contributor to total household income at 51.2% of the total.

The importance of the various sources of income varies across the income distribution. Agricultural self-employment is the most important source of income amongst the poorest deciles, while non-agricultural self-employment is most important for households in the middle of the income distribution. In contrast, wages are the largest contributor to income for households at the upper end of the distribution, thus demonstrating how this income type forms the largest component of total household income.

Decomposing the contribution to income inequality by income source

In Zambia, wage income is the primary contributor to income inequality, explaining 59% of inequality as measured by the Gini coefficient. The next biggest contributor to income inequality is non-agricultural self-employment, which explains 31% of inequality.

This is partially due to the fact that wage employment makes up such a large share of aggregate household income, and only 27% of households derive income from wages. While other income sources may be even more unequally distributed, and concentrated to even fewer households, they do not contribute as much to the inequality measure as they make up a smaller share of aggregate income.

Looking only at inequality within wage income, the data suggests a change that to some extent parallels structural economic shifts over the period. The data indicates that there has been a shift within wage income away from the primary sectors and, to a lesser extent, secondary sectors, and towards the tertiary sectors.

Has growth been pro-poor?

How have the benefits of Zambia's rapid growth been shared across the income distribution? For the period as a whole, the data suggests that the most rapid proportional gains in real incomes have occurred amongst Zambia's poorest households. However, high growth from a very low base does not translate into significant absolute increases in income or a significant reduction in inequality.

Moreover, while there was a degree of catch-up between the poorest members of society and those in the middle of the distribution, those at the upper end of the distribution were pulling further away leading to worsening levels of overall inequality.

There were also marked differences between urban and rural areas. In rural areas, income growth rates were highest amongst the poorest households, with little or even negative income growth for those at the upper end of the distribution. In urban areas, however, the opposite was true with the larger gains all falling further up the income distribution.

Increased income inequality slowed the reduction in poverty derived from economic growth

Poverty levels in Zambia as measured by the poverty headcount ratio and survey-specific poverty lines declined from 83% in 1996, to 72% in 2010, to 66% in 2015. Our research suggests that while economic growth served to lower the poverty rate between 1996 and 2015, changes in the income distribution worked in the opposite direction, slowing the decline in poverty.

3. Policy conclusions

The analysis suggests an increase in inequality from 1996 to 2015, despite rapid economic growth, and a substantial shift in the structure of the economy away from agriculture. What, then, are some of the key messages for policy?

Integration of policies aimed at addressing poverty and inequality

The evidence suggests that progress towards poverty reduction is being slowed by the changing income distribution in Zambia. This is an important finding, highlighting that issues of inequality should not be viewed as secondary to the challenge of poverty. Instead, the two phenomena are closely related, and lack of progress in one area is likely to undermine progress in the other. From a policy perspective, we would argue for an integration of policies aimed at targeting poverty reduction and those looking to address inequality. Such an approach should help to ensure that policies in the two areas reinforce each other and that, together, they are more effective in achieving the two objectives.

Increased focus on creation of wage employment

Creating an environment that is conducive to the creation of wage employment, and thus expanding access to wage employment (beyond the current 27% of households), should be a key policy priority for reducing inequality and poverty. Even small amounts of wage income may represent a significant boost to households' resources.

However, the challenge is to ensure that capital-intensive industries with low labour-absorptive capacity are not favoured at the expense of more labour-intensive industries, as this would likely further exacerbate income inequality. Given the structure of the economy, this would suggest a renewed focus on improving agriculture, for example. In the longer term, the creation of wage employment is central to the consolidation of a robust tax base, in turn creating space for sustainable redistributive policies that can address both poverty and inequality.

Addressing inequality among wage earners

In order to address income inequality, attention should be paid to inequality amongst wage earners. As noted, wage income is the largest contributor to overall income inequality and its contribution is larger than its share within total income. This will become more important should the country be successful in significantly boosting wage employment in the future.

Raising incomes in agriculture

Even though the agriculture sector accounts for just 5.6% of total household income in 2015, almost half of all households report earning this type of income. Raising productivity and incomes in agriculture—specifically for the self-employed—has the potential to impact significantly on both inequality and poverty due to the large proportion of households with access to this type of income.